First Quarter of 2024

METALS INDUSTRY REPORT

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Summary

GLOBAL ECONOMIC SLOWDOWN WILL DRIVE METALS DEMAND LOWER IN THE FIRST HALF OF 2024

- Elevated interest rates will continue to weigh on durable goods consumption, manufacturing, and housing in 2024.
- PNC is forecasting a modest U.S. recession this year.
- Potential governmental support and investment stimulus are upsides risks to the outlook.

Industrial metal prices remained volatile in the second half of 2023 after they tumbled in the first half of the year due to weaker industrial activity and easing global supply chain pressures. Prices for steel rebar and iron ore strengthened at the end of 2023 under higher demand for iron ore and steel from China's economic stimulus package. But manufacturing activities across China, Europe and the U.S. remained in contraction, with a pessimistic outlook persisting into late 2023 (Chart 1). Indeed, the contraction in Chinese factory activities in December was the worst in the second half of 2023 according to China's official National Bureau of Statistics (NBS). Additionally, China's property sector continued to pose challenges. Even with easing monetary conditions and government support, inventories of commodities buildings piled up, and floor space sold and started dropped in 2023 (Chart 2). In the U.S., job growth and inflation have slowed over the course of 2023. Since March 2022 when the Federal Reserve started to raise its short-term policy rate, housing starts, permits and completions have also dropped significantly (Chart 3). Tight monetary policies from the Fed, the European Central Bank (ECB) and the Bank of England (BoE) weighed heavily on manufacturing industries and the overall economies, reinforcing weaker metal prices in 2023.

As contractionary monetary policy continues to weigh on the U.S. and global economies, PNC expects a mild U.S. recession as the labor market continues to soften. The global economic slowdown in 2024 will further drag on employment, consumer demand for durable goods, and manufacturing industries in the U.S. and Europe. Specifically, PNC forecasts U.S. consumer spending on durable goods, especially spending on big-ticket purchases, including autos, will likely shrink due to the softening U.S. labor market and tight credit conditions entering 2024 (Charts 4 and 5).

Besides lower consumption of metal intensive durable goods, the housing market in the U.S. will also likely experience further slowdown in early 2024. PNC's forecast is for a modest decline in investment in structures in the first half of the year (Chart 6). The combination of elevated mortgage rates with tight monetary policy and the worst housing affordability in decades will continue to weigh on U.S. homebuilding, putting downward pressures on the need for the metals extensively utilized in residential construction such as steel, iron, and aluminum. PNC also expects metals demand will get limited support from China in the first half of 2024 with its cooling housing market, indebted local governments and weak domestic consumption.

Risks to this outlook are to the upside. Rising international competition in electric vehicles could spur new domestic investments that support the metals industry in 2024. For example, the Biden administration's $9.2 billion loan to Ford Motors Co. could support construction of new EV battery manufacturing plants that will boost metals demand. Future investment stimulus coming out of the U.S., China, and Europe could support infrastructure spending and demand for metals in 2024. Carbon emissions reduction efforts in advanced economies, a shift towards greater energy efficiency, and the adoption of alternatives to carbon-intensive housing and equipment could require extensive infrastructure investment that would drive up metals demand beyond 2024. A potential soft landing in the U.S. economy, with weak growth but no recession, could also lead to stronger metals demand and higher prices than in the PNC baseline forecast.

Chart 1. Contraction In Manufacturing Continues In China And US, With EU Business Climate At 2-Year Low

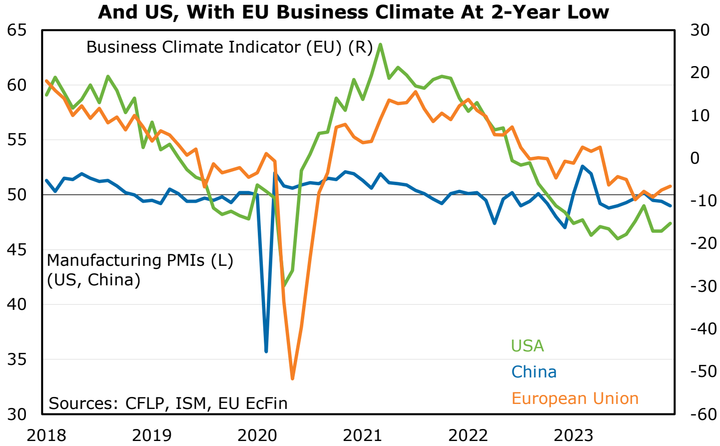


Chart 2. Vacancy Of Commodity Buildings In China Went Up in 2023 With Starts And Sales Down

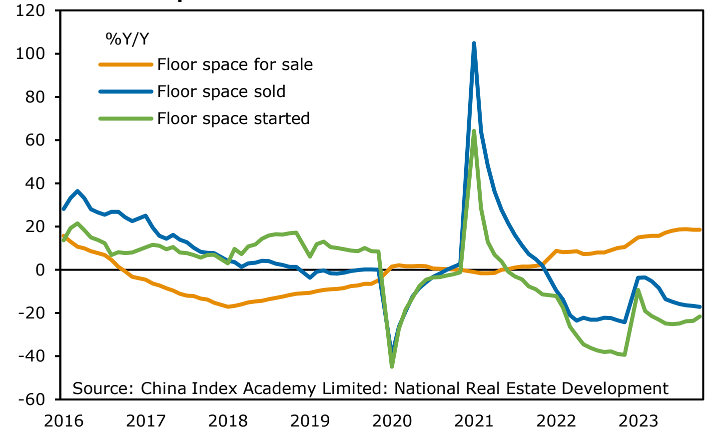


Chart 3. Cooling Off In Housing Expected To Continue With Completions To Slow

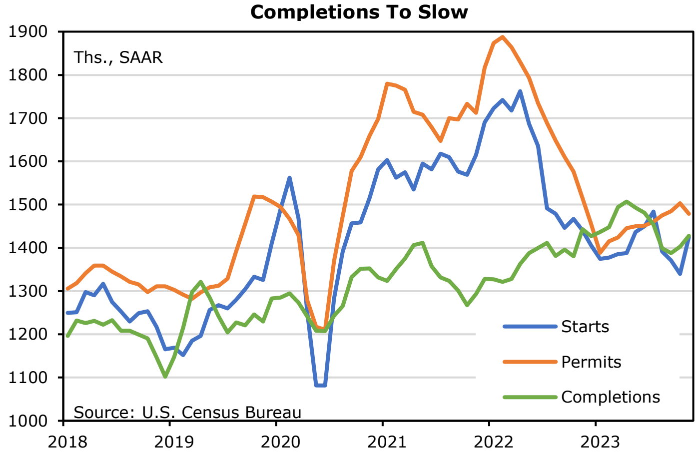


Chart 4. Expenditures On Durable Goods Expected To Fall In 2024

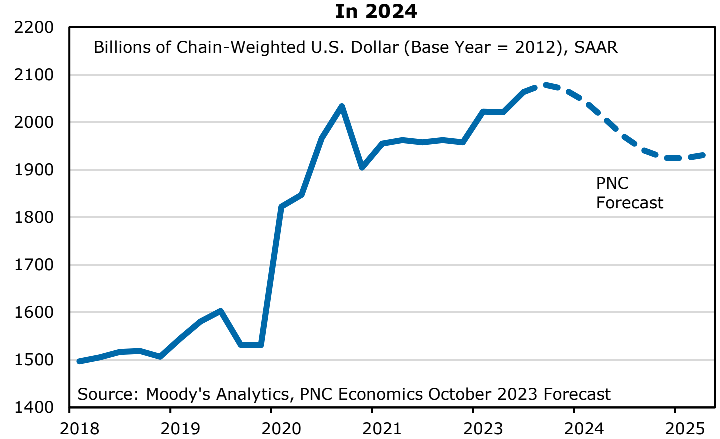


Chart 5. U.S. Auto Sales Expected to Decline In 2024

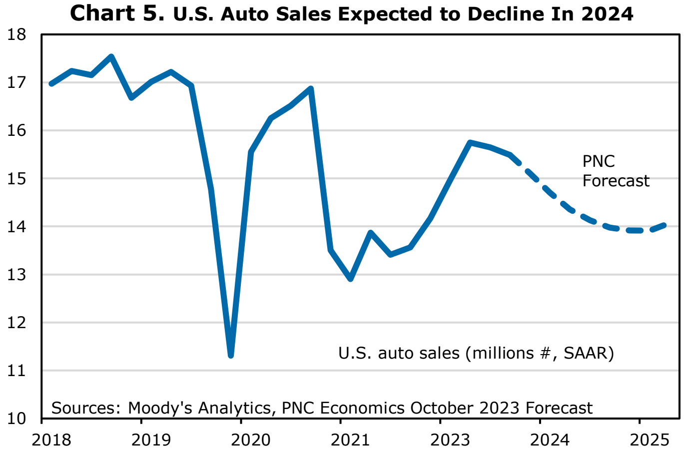
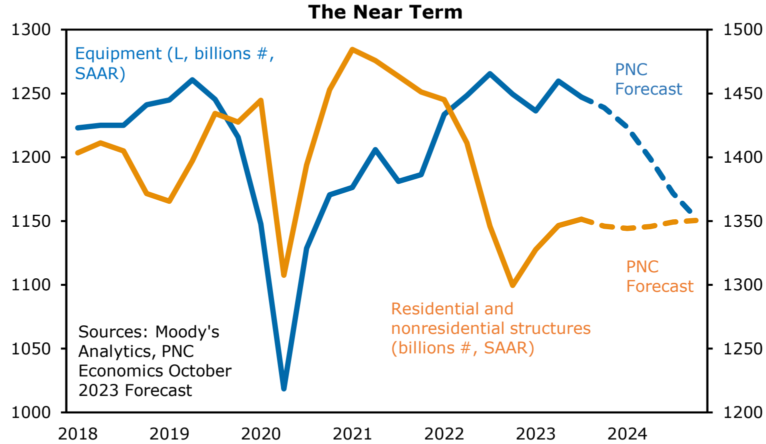


Chart 6. Construction Investment Expected To Decline In The Near Term



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